COMPANY RESULTS

Hartalega Holdings (HART MK)

1QFY26: Challenges Persist; Prioritising Optimisation

While the challenging outlook continues to pressure sales demand, Harta's focus on internal cost optimisation resulted in earnings improving qoq in 1QFY26. Management also guided an improving outlook for the rest of FY26 as US demand recovers after frontloaded inventories are depleted. Nevertheless, intensifying China competition and oversupply dynamics continue to impact earnings. Harta was also hit by a RM101m IRB tax assessment. Maintain HOLD with a lower target price of RM1.40.

1QFY26 RESULTS

Year to 31 Mar (RMm)	1QFY26	qoq % chg	yoy % chg	Comments
Revenue	**553.1**	**-9.6**	**-5.3**	Down qoq due to lower volume sales (-3%) and USD ASPs (-4%).
Operating exp.	-545.4	-9.4	-0.7	Lower opex after workforce reduction
EBITDA	**54.9**	**-6.3**	**-28.0**	Declined qoq vs RM59m in 4QFY25
EBIT	**14.4**	**-19.0**	**-65.8**	
Finance costs	-0.1	-43.0	-91.8	
PBT	**14.3**	**-18.8**	**-65.2**	
Taxation	-2.0	-34.4	-78.4	
Core net profit	**8.2**	**n.a.**	**-78.0**	Turnaround 4QFY25's RM5m core losses into profit
		qoq ppt chg	**yoy ppt chg**	
EBITDA margin (%)	9.9	0.3	-3.1	
Eff. tax rate (%)	-13.9	3.3	8.6	
Core Net Margin (%)	1.5	2.4	-4.9	Margin expanded qoq on better efficiency

Source: Hartalega, UOB Kay Hian

RESULTS

- **Below expectations.** Hartalega Holdings (Harta) registered 1QFY26 core net profit of RM8.2m (4QFY25: RM5.4m core losses), after stripping off exceptional items. 1QFY26 earnings accounted for 7% and 6% of our and consensus full-year estimates respectively.
- **Weaker yoy core earnings reflect volume sales downtick due to US' customers frontloaded inventories.** Note that Harta's revenue decreased by 5% yoy and 10% qoq in 1QFY26, mainly dragged by softer volume sales (-3% qoq). ASP in ringgit terms was also lower (-7% qoq), and in US dollar terms declined 4% qoq to US$21.70/'000 pieces.
- **Operating matrixes softened as US demand weakened.** In 1QFY26, Harta charted a lower utilisation rate of 67% (4QFY25:69%) based on an adjusted capacity of c.35b. This mainly reflects slower demand as US customers previously frontloaded inventory replenishment ahead of the tariff implementation on China-made gloves. Notably, the US dollar also weakened against the ringgit (-3.1% qoq), adding pressure on earnings.

KEY FINANCIALS

Year to 31 Mar (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	1,838	2,586	2,694	2,941	3,249
EBITDA	(23)	53	298	430	468
Operating profit	(155)	(97)	128	259	295
Net profit (rep./act.)	(189)	(73)	97	197	223
Net profit (adj.)	(151)	(62)	97	197	223
EPS (sen)	(4.5)	(1.8)	2.9	5.8	6.6
PE (x)	n.a.	n.a.	45.5	22.8	20.0
P/B (x)	1.6	1.6	1.0	1.0	1.0
EV/EBITDA (x)	n.a.	116.1	11.5	8.0	7.3
Dividend yield (%)	0.2	5.3	1.2	2.4	2.7
Net margin (%)	(10.3)	(2.8)	3.6	6.7	6.8
Net debt/(cash) to equity (%)	(29.3)	(19.8)	(24.5)	(28.1)	(32.0)
Interest cover (x)	(3.1)	25.8	1,491.0	2,151.5	2,338.5
ROE (%)	(4.1)	(1.6)	2.2	4.5	4.9
Consensus net profit	-	-	137.5	205.8	250.2
UOBKH/Consensus (x)	-	-	0.71	0.95	0.89

Source: Hartalega Holdings, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.32
Target Price	RM1.40
Upside	+6.1%
(Previous TP	*RM1.55)*

COMPANY DESCRIPTION

Hartalega is the world's leading nitrile glove manufacturer.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	HART MK
Shares issued (m):	3,413.3
Market cap (RMm):	4,505.5
Market cap (US$m):	1,065.5
3-mth avg daily t'over (US$m):	2.7

Price Performance (%)

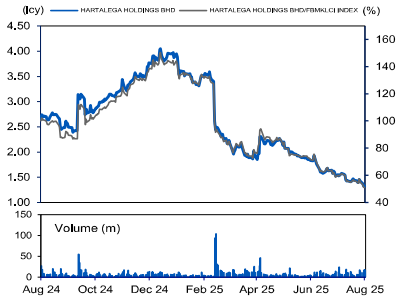
52-week high/low RM4.11/RM1.31

1mth	3mth	6mth	1yr	YTD
(13.7)	(39.7)	(60.1)	(53.4)	(66.6)

Major Shareholders	**%**
Hartalega Industries Sdn Bhd	34.4
Budi Tenggara Sdn Bhd	8.6
KWAP	6.4

FY26 NAV/Share (RM)	1.29
FY26 Net Cash/Share (RM)	0.32

PRICE CHART



Source: Bloomberg

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1QFY26 OPERATING METRICS

	1QFY26	qoq % chg	yoy % chg	Comments
Gloves (b pcs.)	5,906	-3.1	-0.3	Decreased qoq on lower orderbook and demand
Utilisation rate (%)	67%	-2.9	-13.5	
Blended ASP (US$)	21.7	-3.7	4.2	ASPs decreased 4% qoq in USD terms
Exchange rate	4.31	-3.1	-8.9	USD weakened qoq against RM
COG/ '000 gloves (RM)	92.4	-6.5	-0.4	Cost per unit reduced on lower input cost

Source: Hartalega

STOCK IMPACT

- **Anticipates improving profitability in FY26 despite challenging outlook.** Moving into 2QFY26, Harta's overall outlook should improve as US customers' restocking cycle will commence after the earlier frontloaded inventories are depleted. We also understand that US distributors have stopped importing medical gloves from China manufacturers due to the current high tariffs (80% in 2025). Management guided a c.12% qoq volume sales improvement and ASP of around US$21.00/'000 pcs in 2QFY26.
- **Further cost rationalisation in motion to achieve optimal efficiency levels.** After completing an earlier downsizing plan to reduce its 8,000 headcount to around 6,300, Harta will also set aside RM300m to further automate its production lines to optimise overall efficiency, which will eventually reduce its workforce by another 1,000 headcount. Hence, we expect margins to significantly recover in FY26 off FY25's low base, coupled with an improvement in utilisation rate on better demand beginning 1QFY26 (Apr-Jun 26). Management intends to maintain capacity at 35b-37b pieces annually, and further ramp up to 43b eventually by commissioning production lines in its NGC1.5 plant.
- **Ongoing involution from China competitors remains a threat.** Given the severity of the current US tariffs on China-made medical gloves (80% in 2025, 130% in 2026), China glovemakers have largely reduced their exposure to the US market and re-channeled their sales to regions like Europe and Asia with more competitive price-cutting strategies. This has resulted in more challenging dynamics and declining profitability (lower ASP and margin) for non-US sales. That said, the reduction in 2H25 sales from non-US market for local glovemakers will be buffered by increasing US sales as Malaysia's market share of US medical glove imports may grow to 65-70% (from 25-30% in 2024) following China players' exit.
- **Hit by a RM101m IRB additional tax notice.** In a Bursa Malaysia announcement, Harta said that it has received the notice of additional assessment from the Inland Revenue Board (IRB) amounting to RM13.9m, RM36.3m, RM10.7m, RM32.9m, RM18.1m, and RM90.6k for the Year of Assessment (YA) 2017-22 respectively. This amounts to about RM101m in total additional tax. Harta is currently seeking legal advice and evaluating its legal options, which may include initiating a formal appeal to the IRB. In a scenario that Harta is required to pay the additional RM101m tax to IRB, we believe that the group's net cash of RM989m will be sufficient.

EARNINGS REVISION/RISK

- **Cut FY26 and FY27 earnings by 12% and 9% respectively** as we reduce volume sales and utilisation rate assumptions following management's toned-down guidance.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a lower target price of RM1.40 (from RM1.55),** ascribing a 28.0x 2026F PE, in line with its five-year PE mean.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

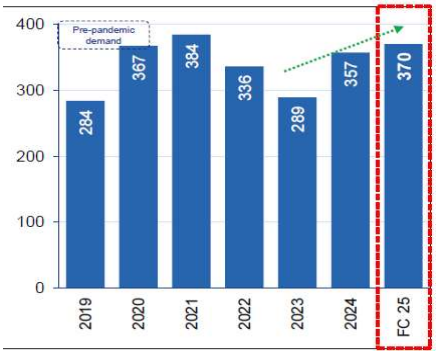
• **Environmental**
- **Emissions management.** Hartalega is progressively working to reduce its carbon footprint, aiming to achieve a 22% reduction in greenhouse gas (GHG) emission intensity by 2024.
• **Social**
- **Social compliance.** Hartalega's social compliance policy is in accordance with local and international standards including the International Labour Organisation's (ILO) 11 indicators of Forced Labour.
• **Governance**
- **Board balance and composition.** Five board members are independent directors, amounting to 63% of the board members.

ASSUMPTIONS

	FY25	FY26F	FY27F
Revenue (RMm)	**2586**	**2694**	**2941**
Growth yoy (%)	41%	4%	9%
ASP growth yoy (%)	3%	3%	2%
Volume growth (%)	42%	6%	7%
Profit (RMm)	**26**	**97**	**197**
Growth yoy (%)	-21%	279%	102%
Profit margin (%)	1%	4%	7%

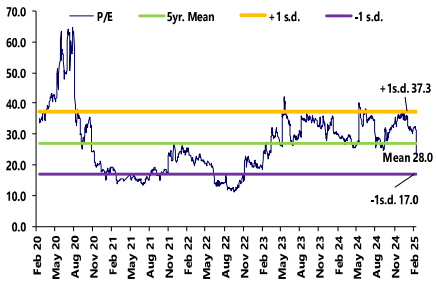
Source: UOB Kay Hian

GLOBAL GLOVES DEMAND (B' PIECES)



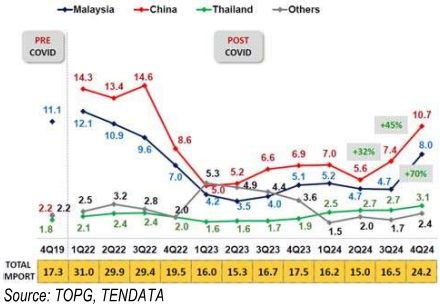
Source: Hartalega, International Trade Center (ITC)

FIVE-YEAR FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

US' QUARTERLY GLOVES IMPORT (B' PCS)



Source: TOPG, TENDATA

PROFIT & LOSS

Year to 31 Mar (RMm)	2025	2026F	2027F	2028F
Net turnover	**2,586**	**2,694**	**2,941**	**3,249**
EBITDA	53	298	430	468
Deprec. & amort.	151	170	172	173
EBIT	50	128	259	295
Total other non-operating income	0	(0)	(0)	(0)
Associate contributions	0	0	0	0
Net interest income/(expense)	(2)	(0)	(0)	(0)
Pre-tax profit	**48**	**128**	**258**	**295**
Tax	26	(31)	(62)	(72)
Minorities	0	0	0	0
Net profit	74	97	197	223
Net profit (adj.)	**26**	**97**	**197**	**223**

BALANCE SHEET

Year to 31 Mar (RMm)	2025	2026F	2027F	2028F
Fixed assets	2,573	2,573	2,573	2,573
Other LT assets	443	617	480	454
Cash/ST investment	923	1,073	1,257	1,460
Other current assets	801	887	941	1,024
Total assets	**4,740**	**5,150**	**5,251**	**5,512**
ST debt	4	4	4	4
Other current liabilities	236	275	289	449
LT debt	0	0	0	0
Other LT liabilities	181	181	181	181
Shareholders' equity	4,322	4,366	4,455	4,555
Minority interest	(3)	(3)	(3)	(3)
Total liabilities & equity	**4,740**	**4,824**	**4,926**	**5,186**

CASH FLOW

Year to 31 Mar (RMm)	2025	2026F	2027F	2028F
Operating	**114**	**230**	**327**	**344**
Pre-tax profit	(100)	128	258	295
Tax	26	(31)	(62)	(72)
Deprec. & amort.	151	170	172	173
Associates	0	0	0	0
Working capital changes	(49)	(38)	(41)	(52)
Non-cash items	(24)	0	0	0
Other operating cashflows	109	0	0	0
Investing	**(140)**	**(26)**	**(35)**	**(18)**
Capex (growth)	(36)	(26)	(35)	(18)
Proceeds from sale of assets	439	439	439	439
Others	(385)	(439)	(439)	(439)
Financing	**(466)**	**(54)**	**(108)**	**(123)**
Dividend payments	(401)	(54)	(108)	(122)
Proceeds from borrowings	(63)	0	0	0
Loan repayment	(60)	0	0	0
Others/interest paid	58	(0)	(0)	(0)
Net cash inflow (outflow)	(492)	150	184	204
Beginning cash & cash equivalent	1,427	923	1,073	1,257
Changes due to forex impact	(12)	0	0	0
Ending cash & cash equivalent	**923**	**1,073**	**1,257**	**1,460**

KEY METRICS

Year to 31 Mar (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	2.1	11.1	14.6	14.4
Pre-tax margin	(3.8)	4.7	8.8	9.1
Net margin	(2.8)	3.6	6.7	6.8
ROA	(1.5)	2.0	3.8	4.1
ROE	(1.6)	2.2	4.5	4.9
Growth				
Turnover	40.7	4.2	9.2	10.5
EBITDA	n.a.	460.5	44.3	8.7
Pre-tax profit	n.a.	n.a.	102.1	14.0
Net profit	n.a.	n.a.	102.0	13.2
Net profit (adj.)	n.a.	n.a.	102.0	13.2
EPS	n.a.	n.a.	100.0	13.8
Leverage				
Debt to total capital	0.1	0.1	0.1	0.1
Debt to equity	0.1	0.1	0.1	0.1
Net debt/(cash) to equity	(19.8)	(24.5)	(28.1)	(32.0)
Interest cover (x)	25.8	1,491.0	2,151.5	2,338.5

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